

RECORDATION NO. 18955 FILED 1425

AUG 31 1994 -12:20 PM

THOMPSON & MITCHELL
ATTORNEYS AT LAW

ONE MERCANTILE CENTER
ST. LOUIS, MISSOURI 63101-1693
(314) 231-7676
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INTERSTATE COMMERCE COMMISSION

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POST OFFICE BOX 750
BELLEVILLE, IL 62222-0750
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JAN ROBEY ALONZO
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200 NORTH THIRD STREET
ST. CHARLES, MO 63301-2890
(314) 946-7717

700 14TH STREET, N.W.
WASHINGTON, D.C. 20005-2010
(202) 508-1000

August 30, 1994

Secretary
Interstate Commerce Commission
Recordation Office
12th & Constitution Avenues, N.W.
Room 2303
Washington, D.C. 20423

0100351050

Dear Secretary:

I have enclosed an original and three (3) fully-executed counterparts of the document described below, to be recorded pursuant to Section 11303 of Title 49 of the U.S. Code.

This document is a Rolling Stock Security Agreement, a primary document, dated August 30, 1994.

The names and addresses of the parties to the document are as follows:

Lender: Nations Financial Capital Corporation
201 Broad Street
Stamford, Connecticut 06901

Borrower: Durango & Silverton Narrow Gauge Railroad
Company
479 Main Avenue
Durango, Colorado 81301

A description of the equipment covered by the document follows:

44 passenger cars and 10 locomotives bearing
Durango & Silverton Road numbers as follows:

<u>Passenger Cars</u>					<u>Locomotives</u>	
64	319	336	406	415	420	481
126	323	337	407	416	473	482
212	327	350	408	566	476	493
213	330	400	409	630	478	498
257	331	401	410	631	480	499
270	332	402	411	632		
291	333	403	412	B-2		
311	334	404	413	B-7		
312	335	405	414			

LICENSING BRANCH

AUG 31 12 19 PM '94

RECEIVED
OFFICE OF THE
CLERK OF THE
COMMISSION

Interstate Commerce Commission
August 30, 1994
Page 2

A cashier's check in the amount of \$18.00 is enclosed for the filing fee. Please return any extra copies not needed by the Commission for recordation, stamped to show recordation, to Jan Robey Alonzo, Thompson & Mitchell, One Mercantile Center, Suite 3400, St. Louis, Missouri 63101.

A short summary of the document to appear in the Index follows:

Rolling Stock Security Agreement dated August 30, 1994, between Nations Financial Capital Corporation, 201 Broad Street, Stamford, Connecticut 06901 ("Lender") and Durango & Silverton Narrow Gauge Railroad Company, 479 Main Avenue, Durango, Colorado 81301 ("Borrower"), and covering 44 passenger cars, and 10 locomotives, bearing Durango & Silverton Road numbers as follows:

<u>Passenger Cars</u>					<u>Locomotives</u>	
64	319	336	406	415	420	481
126	323	337	407	416	473	482
212	327	350	408	566	476	493
213	330	400	409	630	478	498
257	331	401	410	631	480	499
270	332	402	411	632		
291	333	403	412	B-2		
311	334	404	413	B-7		
312	335	405	414			

Very truly yours,

THOMPSON & MITCHELL

By *Jan Robey Alonzo*
Jan Robey Alonzo *MAA/B*

Attorney for Nations Financial
Capital Corporation

Enclosures

Interstate Commerce Commission
Washington, D.C. 20423

OFFICE OF THE SECRETARY

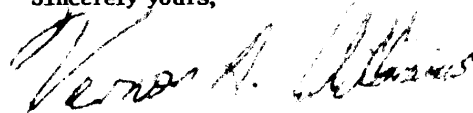
AUGUST 31, 1994

JAN ROBEY ALONZO
THOMPSON & MITCHELL
ONE MERCANTILE CENTER
ST. LOUIS MO 63101-1693

Dear MS. ALONZO:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 8/31/94 at 12:20PM, and assigned recordation number(s). 18955

Sincerely yours,

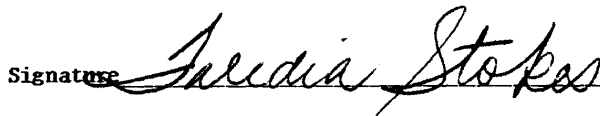


Vernon A. Williams
Acting Secretary

Enclosure(s)

\$ 18.00 The amount indicated at the left has been received in payment of a fee in connection with a document filed on the date shown. This receipt is issued for the amount paid and in no way indicates acknowledgment that the fee paid is correct. This is accepted subject to review of the document which has been assigned the transaction number corresponding to the one typed on this receipt. In the event of an error or any questions concerning this fee, you will receive a notification after the Commission has had an opportunity to examine your document.

Signature



RECORDATION NO. **18955** FILED 1425

AUG 31 1994 -12 20 PM

INTERSTATE COMMERCE COMMISSION

ROLLING STOCK SECURITY AGREEMENT

BETWEEN

**DURANGO & SILVERTON NARROW GAUGE RAILROAD
COMPANY**

AS BORROWER

AND

NATIONS FINANCIAL CAPITAL CORPORATION

AS LENDER

DATED AS OF AUGUST 30, 1994

Filed and recorded with the Interstate Commerce Commission pursuant to 49 U.S.C. 11303
on _____, 1994, at ____ m., Recordation No. _____

ROLLING STOCK SECURITY AGREEMENT

This ROLLING STOCK SECURITY AGREEMENT (this "Agreement") dated as of the 30th day of August, 1994, between **DURANGO & SILVERTON NARROW GAUGE RAILROAD COMPANY**, a Colorado corporation, having its principal office at 479 Main Avenue, Durango, Colorado 81301 ("Borrower"), and **NATIONS FINANCIAL CAPITAL CORPORATION**, a Delaware corporation, having its principal office at One Canterbury Green, Stamford, Connecticut 06901 ("Lender").

In order to induce Lender to extend or continue to extend credit to Borrower, under the Loan Agreement (as defined below) or otherwise, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Borrower hereby agrees with Lender as follows:

I. DEFINITIONS

A. Specific Terms. In addition to terms defined elsewhere in this Agreement or in any exhibit or amendment hereto or document incorporated herein, when used herein, the following terms shall have the following meanings:

"Collateral" shall mean the Rolling Stock, together with all parts thereof or therefor (including spare parts), attachments, accessories, accessions, equipment, appurtenances and additions that are appertaining, attached, affixed or related thereto and all substitutions, renewals or replacements thereof and all additions, improvements, accessions and accumulations thereto, all books and records (including computer records) in any way related thereto, and all proceeds thereof.

"Collateral Location" shall mean the Durango & Silverton Narrow Gauge Railroad, including all track, buildings, sheds and storage areas ordinarily used by said railroad.

"Loan Agreement" shall mean that certain Loan and Security Agreement dated the date hereof by and between Borrower and Lender, as the same may from time to time be amended, modified, extended or renewed in accordance with the terms thereof.

"Obligations" shall mean (i) any and all indebtedness (principal, interest, premium, fees, late fees and other amounts), liabilities and obligations of Borrower to Lender, including, without limitation, all of "Borrower's Obligations" as defined in the Loan Agreement; (ii) any and all indebtedness, liabilities and obligations of Borrower under this Agreement; and (iii) any and all costs of collection, Attorneys' Fees and expenses incurred by Lender upon the occurrence of an Event of Default under this Agreement, in collecting or enforcing payment of any such indebtedness, liabilities or obligations or in preserving, protecting or realizing on the Collateral hereunder or in representing Lender in connection with bankruptcy or insolvency proceedings.

"Rolling Stock" shall mean the railcars, engines and other rolling stock or equipment described on Exhibit A attached hereto and all other Rolling Stock of Borrower, whether now owned or hereafter acquired and wherever located.

B. Other Terms. Except as otherwise defined herein, all capitalized terms used in this Agreement shall have the respective meanings given to such terms in the Loan Agreement, and any other terms, not otherwise defined herein or in the Loan Agreement, which are defined in the Uniform Commercial Code as in effect in the State of Connecticut ("UCC") shall have the meanings set forth in the UCC.

II. GRANTING CLAUSE

To secure payment and performance of the Obligations, Borrower hereby pledges, assigns, transfers and sets over to Lender, and grants to Lender a first lien and security interest in and upon all of the Collateral.

III. REPRESENTATIONS AND WARRANTIES

Borrower hereby represents and warrants to Lender that:

A. Borrower is in compliance with all laws of the jurisdictions in which its operations involving the Collateral may extend; Borrower is not subject to the interchange rules of the Association of American Railroads, the rules of the United States Department of Transportation, the Interstate Commerce Commission or any other legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Collateral; in the event that such laws and rules affect title, operation, maintenance or use of the Collateral, or such laws or rules require any alteration, replacement or addition of or to any equipment, Borrower will conform therewith at its own expense.

B. Borrower is the sole and absolute owner of the Collateral free and clear of any and all liens, claims and encumbrances of every kind and nature except for the lien and encumbrance hereby granted and created and liens permitted by this Agreement.

C. Upon appropriate filings with the Interstate Commerce Commission, the security interest contemplated hereby will at all times constitute a valid, perfected and enforceable first priority security interest in favor of Lender, subject to no other security interest, mortgage, lien or encumbrance.

D. Borrower has signed no financing statements, security agreements or other statements, agreements, or documents of any type granting or proposing to grant any form of security interest or lien on any of the Collateral, except for financing statements and this Agreement in favor of Lender and a financing statement and a Rolling Stock Security Agreement in favor of Merrill Lynch

Business Financial Services, Inc. which shall be terminated and released immediately upon the funding of the Refinance Loan (as defined in the Loan Agreement). No Collateral is in the possession of any Person (other than Borrower and Lender) asserting any claim thereto or security interest therein. Exhibit A hereto contains a full and complete list and accurate description of all Rolling Stock now owned by Borrower.

IV. COVENANTS AND AGREEMENTS

Borrower hereby covenants and agrees with Lender that:

A. Operation. Borrower shall at all times during the term hereof maintain exclusive possession, control and use of the Collateral and shall completely assume all responsibility with respect thereto. Borrower shall cause Rolling Stock to be operated only by safe, careful and licensed engineers who are employed by Borrower or who are leased by the Borrower pursuant to any lease or employment arrangement which has been approved by Lender. Borrower shall require each such engineer to operate such train with reasonable care and to use every reasonable precaution to prevent any loss or damage thereto from fire, theft, collision, or otherwise, and to prevent injury to persons or damage to property. Borrower shall further comply with all applicable federal and state inspection, licensing and registration requirements, and all other federal, state and local laws, regulations and other governmental requirements applicable to any Collateral or the use or operation thereof. Borrower shall not use the Collateral in any manner which is in violation of any provision of any insurance policy. Borrower shall not, without the prior written consent of Lender, attach or affix any of the Collateral in any manner to or have any portion of the Collateral become a part of any real estate or to any personal property.

B. Location/Inspection. Borrower shall cause all of the Collateral to at all times be located at a Collateral Location, and shall provide to Lender, from time to time, upon request of Lender, a list of the items of Collateral specifying the physical location and condition of each material item. Lender may examine and inspect the Collateral or any part thereof, wherever located, at any reasonable time or times.

C. Identification of Collateral. Borrower shall, at all times, cause the Collateral to be kept numbered with identification numbers as shall be set forth in this Agreement, or any amendment or supplement hereto. Borrower will not change the identification number of any unit of Collateral unless and until (1) a statement of new number or numbers to be substituted therefore shall have been filed with Lender and filed, recorded and deposited by Borrower and all public offices where this Agreement shall have been filed, recorded and deposited and (2) Borrower shall have furnished to Lender an opinion of counsel in form and substance reasonably satisfactory to Lender to the effect that such statement

has been so filed, recorded and deposited, such filing, recordation and deposit will protect Lender's interest in such Collateral and that no other filing, recording, deposit or giving of notice with or to any other Federal, State or local government or agency thereof is necessary to protect the interest of Lender in the Collateral.

D. Liens. Borrower shall not create or permit to exist any lien, encumbrance or security interest upon or with respect to any Collateral now owned or hereafter acquired, in favor of anyone other than Lender except as may be permitted by the Loan Agreement, and Borrower will defend the Collateral against all claims and demands of all persons at any time claiming the same or any interest therein. Borrower shall further perform any and all acts reasonably requested by Lender to establish, perfect, maintain and continue Lender's security interests and liens upon the Collateral, including, but not limited to: (i) executing financing statements, documents or certificates of title and any and all other instruments and documents (including, without limitation, any instruments to be filed with the Interstate Commerce Commission) when and as reasonably requested by Lender, and (ii) causing the owners and/or mortgagees of the real property on which any Collateral may be located to execute and deliver to Lender waivers or subordinations satisfactory to Lender with respect to any rights in such Collateral.

E. Alterations and Maintenance. Except upon the prior written consent of Lender, Borrower shall not make or permit any material alterations to any Collateral which might reduce or impair its market value or utility. Borrower shall at all times keep the Collateral in at least as good condition, order and repair as on the date hereof, ordinary wear and tear excepted and excepting any loss, damage or destruction which is fully covered by proceeds of insurance (subject to any applicable deductible). Borrower shall pay or cause to be paid all obligations arising from the repair and maintenance of such Collateral, as well as all obligations with respect to the premises where any Collateral is or may be located, except for any such obligations being contested by Borrower in good faith by appropriate proceedings being diligently conducted and for which adequate reserves in form and amount acceptable to Lender have been provided. Without limiting the foregoing, Borrower shall, at its sole cost and expense, make all repairs and replacements to each item of Collateral as may be necessary to (A) keep and maintain such item in all respect in first-class mechanical condition and repair, and (B) comply with all applicable federal, state and local laws and other governmental requirements.

F. Taxes. Borrower shall pay promptly and in every case prior to becoming delinquent all taxes and assessments on or relating to the Collateral, or for its use or operation, or upon this Agreement or any of the Obligations, or with respect to the perfection of any security interest or other lien hereunder (except as otherwise required by law); provided, however, that Borrower shall not be required to pay any such tax or assessment the payment

of which is being contested in good faith and by appropriate proceedings being diligently conducted and for which adequate reserves in form and amount acceptable to Lender have been provided, except that Borrower shall cause (i) to be paid all taxes and assessments upon the commencement of proceedings to foreclose upon any lien on the Collateral unless such foreclosure is stayed by the filing of an appropriate bond, and (ii) any arrest, seizure, levy, custody of or other detainer of any of the Collateral to be released within ten (10) days by filing an appropriate bond or undertaking or be securing such discharge or release by stipulation or otherwise and Borrower shall execute and deliver to Lender, on demand, appropriate certificates attesting to the payment or deposit thereof.

G. Insurance. Borrower shall, at all times, keep all Collateral insured against loss, damage, theft and other risks, by maintaining policies in such amounts and with companies and under such policies and in such form, all as shall be acceptable to Lender. Borrower shall maintain single limit public liability and property damage insurance of not less than \$10,000,000.00 per occurrence, or such greater or lesser amount as Lender may from time to time request on notice to Borrower. Borrower shall cause such insurance policies to be written with loss payable clauses providing in effect that the proceeds of any property insurance policy paid on account of any loss shall be paid to Lender, which proceeds shall be disbursed by Lender to Borrower for repair, restoration or replacement of the damaged property or applied by Lender as provided in Section IV(H) below. Borrower shall maintain such other insurance as may be required by law. Borrower shall furnish Lender with a copy or certificate of each such policy or policies and, prior to any expiration or cancellation, each renewal or replacement thereof.

H. Event of Loss. Proceeds of insurance received by Borrower on account of any partial loss shall be used by Borrower for the purpose of making repairs to such Collateral, provided, however, that Borrower shall provide certification to Lender of the repairs made on completion of such repairs. So long as no Default or Event of Default under this Agreement has occurred and is continuing, all insurance proceeds received by Lender on account of any loss of or damage to any of the Collateral may, at the option of Borrower, either (i) be used and applied for the sole purpose of paying the cost of repair, restoration or replacement of the Collateral damaged or destroyed and Borrower shall provide Lender with an appropriate certification by a qualified engineer that any such repair, restoration or replacement which exceeds \$50,000.00 in cost has been completed, or (ii) be applied to the payment of the Borrower's Obligations (as defined in the Loan Agreement) in such order and manner as Lender may elect. If any Default or Event of Default under Article V of this Agreement has occurred and is continuing, all insurance proceeds received or held by Lender on account of any loss of or damage to any of the Collateral, after deducting therefrom the reasonable charges and expenses paid or incurred in connection with the collection and disbursement of said

proceeds, shall be applied to the payment of the Borrower's Obligations in such order and manner as Lender may elect unless otherwise consented to in writing by Lender.

I. Notice of Certain Events. Borrower shall give Lender immediate notice of any attachment, lien, judicial process, encumbrance or claim affecting, or any other event which may adversely impact, any Collateral and any casualty to or accident involving any Collateral, whether or not constituting an Event of Loss.

J. Hazardous Cargo. Borrower shall not use the Collateral, or permit it to be used, for the transportation or storage of any substance which is categorized as or required to be labeled as, "Poison" or "Poisonous", "Explosive" or "Radioactive" (or any categories or labels substituted for such categories or labels as in effect on the day hereof) or under 49 C.F.R. 171 or other applicable Federal Rules in effect from time to time regulating the transportation of hazardous materials.

K. General Indemnity. In addition to the payment of expenses pursuant to Section VI(H), whether or not the transactions contemplated hereby shall be consummated, Borrower hereby agrees to indemnify, pay and hold Lender and any holder of the Note, and the officers, directors, employees, agents and affiliates of Lender and such holder (collectively, the "Indemnitees") harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of counsel for such Indemnitees in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not such Indemnitees shall be designated a party thereto), that may be imposed on, incurred by or asserted against the Indemnitees, in any manner relating to or arising out of this Agreement, the Note, the Loan Agreement or any other agreement, document or instrument executed and delivered by Borrower in connection herewith or therewith, the statements contained in any commitment letters delivered by Lender, Lender's agreement to make the loan evidenced by the Note or the use or intended use of the proceeds of such loan (collectively, the "indemnified liabilities"); provided that Borrower shall have no obligation to an Indemnitee hereunder with respect to indemnified liabilities arising from the gross negligence or willful misconduct of that Indemnitee as determined by a court of competent jurisdiction in a final, non-appealable order. To the extent that the undertaking to indemnify, pay and hold harmless set forth in the preceding sentence may be unenforceable because it is violative of any law or public policy, Borrower shall contribute the maximum portion that it is permitted to pay and satisfy under applicable law to the payment and satisfaction of all indemnified liabilities incurred by the Indemnitees or any of them. The provisions of the undertakings and indemnification set out in this Section IV(K)

shall survive satisfaction and payment of the Note, Borrower's Obligations and the termination of this Agreement.

L. Lender's Performance. Borrower will allow Lender, at its option, from time to time, to perform any agreement of Borrower hereunder which Borrower shall fail to perform and take any other action which Lender deems necessary for the maintenance or preservation of any of the Collateral or its interest therein (including, without limitation, the discharge of taxes, except as such taxes are being contested in good faith as permitted by Section IV(F) above, or liens of any kind against the Collateral or the procurement of insurance or the payment of warehousing charges, landlord's bills or other charges), and Borrower agrees to forthwith reimburse Lender for all costs and expenses incurred by Lender in connection with the foregoing, together with interest thereon at a rate per annum equal to the lesser of 18% per annum or the highest rate allowed by law from the date incurred until reimbursed by Borrower. Lender may for the foregoing purposes act in its own name or that of Borrower and may also so act for the purposes of adjusting, settling or, upon the occurrence and continuation of an Event of Default, cancelling any policy of insurance on the Collateral or endorsing any draft received in connection therewith in payment of a loss or otherwise, for all of which purposes Borrower hereby grants to Lender its power of attorney, irrevocable during the Term of this Agreement. In the event Lender, in its sole discretion, undertakes any action under this Section IV(L) at any time or from time to time, Lender shall be under no obligation to undertake any such action on any subsequent occasion, and Lender shall not be required to provide Borrower or any other Person with any notice to take any action hereunder or of its intent not to take any action hereunder at any time or from time to time.

V. DEFAULTS AND REMEDIES

Upon the occurrence of any one of the following Events of Default:

A. Borrower shall fail to make any payment of any of the Obligations as and when the same shall become due and payable, whether by reason of demand, maturity, acceleration or otherwise; or

B. Any representation, warranty, certification or statement of Borrower made in this Agreement, in any other Transaction Document or in any certificate, financial statement, other agreement, instrument or statement furnished or made or delivered pursuant hereto or thereto or in connection herewith or therewith, is false or misleading in any material respect as of the date when made or effected; or

C. Borrower shall fail to perform or observe any term, covenant or provision contained in this Agreement; or

D. Any "Event of Default" (as defined therein) shall occur under or within the meaning of the Loan Agreement;

then and in each such event:

(i) Lender may declare the principal of and the interest on all of the Obligations of Borrower to Lender to be forthwith due and payable, whereupon all such indebtedness, liabilities and other obligations shall become forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower;

(ii) Whether or not such indebtedness, liabilities or other obligations are declared to be forthwith due and payable, Lender shall have the right to take immediate possession of the Collateral covered hereby, and, for that purpose may pursue the same wherever said Collateral may be found, and may enter upon any of the premises of Borrower with or without force or process of law, wherever said Collateral may be or may be supposed to be, and search for the same, and, if found, take possession of and remove and sell, transfer, assign and dispose of said Collateral, or any part thereof; and

(iii) Lender may exercise any one or more of the rights and remedies accruing to a secured party under the UCC of the relevant state or states and any other applicable law upon default by a debtor.

E. Foreclosure. Foreclosure on the Collateral covered hereby may be had at public or private sale or sales, disposing of such portion or portions of the Collateral at each such sale, for cash or on credit, on such terms, at such place or places, and with or without the Collateral being present at such sale, all as Lender in its sole and absolute discretion shall determine from time to time. In the case of public sale, notice thereof shall be deemed and held to be adequate and reasonable if such notice shall appear three (3) times in a newspaper of general circulation in the City or County wherein the sale is to be held, the first such publication being at least ten (10) days before such sale and the last such publication being not more than three (3) days before such sale. In the case of a private sale, notice thereof shall be deemed and held to be adequate and reasonable if such notice shall be mailed to Borrower at its last known address at least ten (10) days before such sale. The enumeration of these methods of notice shall not be deemed or construed to render unreasonable any other method of notice which would otherwise be reasonable under the circumstances.

F. Application of Proceeds and Deficiency. Lender may apply the net proceeds of any sale, lease or other disposition of the Collateral, after deducting all costs and expenses of every kind incurred therein or incidental to the retaking, holding, preparing

for sale, selling, leasing or the like of the Collateral on Borrower's premises, or elsewhere, or in any way related to Lender's rights thereunder (including, without limitation, attorneys' fees and expenses, court costs, bonds and other legal expenses, insurance, security guard and alarm expenses incurred in connection with the holding of the Collateral, advertisements of sale of the Collateral, and rental and utilities expense on the premises or elsewhere in connection with storage and sale of the Collateral) to the payment, in whole or in part, of the Obligations of Borrower to Lender, whether due or not due, absolute or contingent, and only after payment by Lender of any other amounts required by any existing or future provision of law (including Section 9-504(1)(c) of the UCC or any comparable statutory provision of any jurisdiction in which any of the Collateral may at the time be located) need Lender account to Borrower for the surplus, if any. Borrower shall remain liable to Lender for the payment of any deficiency, with interest.

G. Lender's Care of Collateral. Lender shall be deemed to have exercised reasonable care in the custody and preservation of any of the Collateral in its possession if it takes such action for that purpose as Borrower requests in writing, but failure of Lender to comply with any such request shall not of itself be deemed a failure to exercise reasonable care, and no failure of Lender to preserve or protect any rights with respect to such Collateral against prior parties, or to do any act with respect to the preservation of such Collateral not so requested by Borrower, shall be deemed a failure to exercise reasonable care in the custody or preservation of such Collateral.

VI. MISCELLANEOUS

A. Amendments; Waivers; Remedies Cumulative. No delay or failure on the part of Lender in the exercise of, and no course of dealing with respect to, any right hereunder shall operate as a waiver thereof and no single or partial exercise by Lender of any right shall preclude other or further exercise thereof or the exercise of any other right hereunder, under any of the other Transaction Documents or applicable law. A waiver by Lender of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Lender would have on any future occasion. Each and every right granted to Lender hereunder, under the other Transaction Documents or any other instrument, document or agreement, or at law or in equity, shall be deemed cumulative and may be exercised from time to time. Neither this Agreement, nor any provision hereof, may be waived, modified, supplemented, amended, rescinded, discharged or terminated except by a writing duly signed by Lender, and then only to the extent therein set forth.

B. Durable Power of Attorney. Borrower hereby makes, constitutes and appoints Lender the true and lawful agent and attorney-in-fact of Borrower with full power of substitution to do any and all things necessary and take such action in the name and

on behalf of Borrower to carry out the intent of this Agreement, including, without limitation, the grant of the security interest granted under this Agreement, to perfect and protect the security interest granted to Lender in respect to the Collateral and Lender's rights created under this Agreement and to act on behalf of Borrower for the purposes set forth in Section IV(L), which power of attorney is irrevocable during the term of this Agreement. Borrower agrees that neither Lender nor any of its shareholders, directors, officers, employees, agents, designees or attorneys-in-fact will be liable for any acts of commission or omission, or for any error of judgment or mistake of fact or law in respect to the exercise of any power of attorney provided for under this Agreement. This power of attorney shall not be affected by the subsequent dissolution of Borrower and shall in all respects constitute a durable power of attorney. Borrower agrees that neither Lender nor any of its agents, designees or attorneys-in-fact will be liable for any acts of commission or omission, or for any error of judgment or mistake of fact or law in respect to the exercise of the power of attorney granted under this Section.

C. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including prepaid overnight courier, telex, facsimile transmission or similar writing) and shall be given to such party at its address or telecopy or telex number set forth below, or at such other address or telecopy or telex number as such party may hereafter specify for the purpose of notice to Lender and Borrower. Each such notice, request or other communication shall be effective (i) if given by telex or telecopy, when such telex or telecopy is transmitted to the telex or telecopy number specified in this Section and the appropriate answer back is received (in the case of telex) or telephonic confirmation of receipt thereof is obtained (in the case of telecopy), or (ii) if given by mail, prepaid overnight courier or any other means, when received at the address specified in this Section or when delivery at such address is refused.

If to Borrower:

Durango & Silverton Narrow
Gauge Railroad Company
479 Main Avenue
Durango, Colorado 81301
Attention: Cleveland Hightower
Telecopy: (303) 259-3570

With a copy to:

Ultima D. Morgan
Zimmerman, Shuffield, Kiser & Sutcliffe, P.A.
Landmark Center One, Suite 600
315 Robinson Street East
P. O. Box 3000
Orlando, Florida 32802-3000
Telecopy: (407) 425-2747

If to Lender:

Nations Financial Capital Corporation
One Canterbury Green
201 Broad Street
Stamford, Connecticut 06901
Attention: Manager, Contract Administration
Telecopy: (203) 352-4171

With a copy to:

Jan Robey Alonzo
Thompson & Mitchell
One Mercantile Center, Suite 3300
St. Louis, Missouri 63101
Telecopy: (314) 342-1717

D. Applicable Law and Severability. It is the intention of the parties hereto that this Agreement is entered into pursuant to the provisions of the UCC. Any applicable provisions of the UCC, not specifically included herein, shall be deemed a part of this Agreement in the same manner as if set forth herein at length; and any provisions of this Agreement that might in any manner be in conflict with any provision of the UCC shall be deemed to be modified so as not to be inconsistent with the UCC and to that extent the provisions hereof shall be severable and the invalidity of one shall not invalidate another. In all respects this Agreement and all transactions, assignments and transfers hereunder, and all the rights of the parties shall be governed as to the validity, construction, enforcement and in all other respects by the laws of the State of Connecticut as applied to agreements made, executed and performed within the State of Connecticut. To the extent any provision of this Agreement is not enforceable under applicable law, such provision shall be deemed null and void and shall have no effect on the remaining portions of this Agreement. The headings of the paragraphs hereof shall not be considered in the construction or interpretation of this Agreement.

E. Successors and Assigns. This Agreement shall be binding upon Borrower and its successors and permitted assigns, and shall inure to the benefit of Lender and its successors and assigns. Borrower may not assign or delegate any of its rights or obligations under this Agreement without the prior written consent of Lender.

F. Other Obligations. Nothing contained in this Agreement shall be deemed or held to impair or limit in any way the enforcement of the terms of any instrument evidencing any indebtedness, liability or other obligation of Borrower to Lender.

G. Duration of Security Interest. This Agreement shall continue in full force and effect and the security interest granted hereby and the representations, warranties, covenants, agreements, and liabilities of Borrower hereunder and all the terms,

conditions, and provisions hereof relating thereto shall continue to be fully operative until Borrower shall pay or cause to be paid or otherwise discharge all Obligations of Borrower to Lender. Borrower expressly agrees that to the extent a payment or payments to Lender, or any part thereof, are subsequently invalidated, declared to be void or voidable, set aside and are required to be repaid to a trustee, custodian, receiver, or any other party under any bankruptcy act, state or federal law, common law or equitable cause, then to the extent of such payment or repayment, the obligation or part thereof intended to be satisfied shall be revived and continued in full force and effect as if said payment had not been made.

H. Costs, Expenses and Taxes. Borrower agrees to pay all reasonable fees and out-of-pocket expenses of Lender (including, but not limited to, reasonable fees and expenses of outside counsel and auditors) in connection with the administration and enforcement of this Agreement. In addition, Borrower shall pay or reimburse Lender for any and all costs and expenses incidental to or incurred in connection with the execution, delivery and/or recording of this Agreement or any financing statement in connection herewith and the perfection, maintenance or termination of the security interest granted hereby, including any filing and recording fees, fees for obtaining and transferring certificates of ownership or title and all taxes and legal and clerical fees and expenses paid or incurred by Lender in connection with any of the foregoing. If any suit or proceeding arising from any of the foregoing is brought against Lender, Borrower, to the extent and in the manner directed by Lender, shall resist and defend such suit or proceeding with counsel approved by Lender. The obligations of Borrower under this paragraph shall survive the expiration or termination of this Agreement and the discharge of the other Obligations of Borrower.

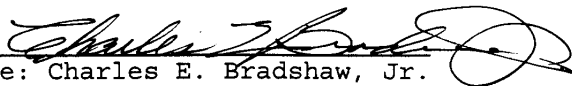
I. Further Assurances. Borrower agrees to do such further acts and things and to execute and deliver to Lender such additional agreements, instruments and documents as Lender may reasonably require or deem advisable to carry into effect the purposes of this Agreement, or to confirm unto Lender its rights, powers and remedies under this Agreement.

J. Jurisdiction; Waiver; Acknowledgment. (i) BORROWER ACKNOWLEDGES THAT THIS AGREEMENT IS BEING ACCEPTED BY LENDER IN PARTIAL CONSIDERATION OF LENDER'S RIGHT AND OPTION, IN ITS SOLE DISCRETION, TO ENFORCE THIS AGREEMENT IN EITHER THE STATE OF CONNECTICUT OR IN ANY OTHER JURISDICTION WHERE BORROWER OR ANY COLLATERAL MAY BE LOCATED. IF SO ELECTED BY LENDER, BORROWER CONSENTS TO JURISDICTION IN THE STATE OF CONNECTICUT AND VENUE IN ANY STATE OR FEDERAL COURT IN THE STATE OF CONNECTICUT FOR SUCH PURPOSES, AND BORROWER WAIVES ANY AND ALL RIGHTS TO CONTEST SAID JURISDICTION AND VENUE. BORROWER WAIVES ANY RIGHTS TO COMMENCE ANY ACTION AGAINST LENDER IN ANY JURISDICTION EXCEPT IN THE STATE OF CONNECTICUT. (ii) LENDER AND BORROWER HEREBY EACH EXPRESSLY WAIVE ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES AGAINST THE OTHER

PARTY WITH RESPECT TO ANY MATTER WHATSOEVER RELATING TO, ARISING OUT OF OR IN ANY WAY CONNECTED WITH THE LOAN AGREEMENT, THIS AGREEMENT AND/OR ANY OF THE TRANSACTIONS WHICH ARE THE SUBJECT OF THE LOAN AGREEMENT OR THIS AGREEMENT. (iii) BORROWER ACKNOWLEDGES THAT IT HAS READ THIS AGREEMENT, UNDERSTANDS ITS TERMS AND CONDITIONS AND CONSENTS AND AGREES TO ALL OF THEM.

IN WITNESS WHEREOF, this Agreement has been executed as of the day and year first above written.

DURANGO & SILVERTON NARROW GAUGE
RAILROAD COMPANY

By: 
Name: Charles E. Bradshaw, Jr.
Title: President

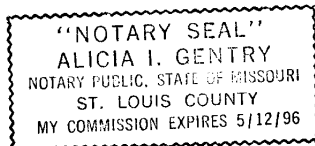
STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

On this 30th day of August, 1994, before me personally came Charles E. Bradshaw, Jr., to me personally known, who, being by me duly sworn, did depose and say that he is President of Durango & Silverton Narrow Gauge Railroad Company, a Colorado corporation, that the foregoing instrument was signed in behalf of said corporation by authority of its Board of Directors and said Charles E. Bradshaw, Jr. acknowledged said instrument to be the free act and deed of said corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at my office in said City and State the day and year last above written.

My term expires _____.

(SEAL)



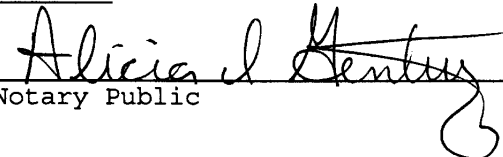

Notary Public

EXHIBIT A

DURANGO & SILVERTON NARROW GAUGE EQUIPMENT ROSTER

CAR NO.	TYPE	NAME
213	PASS/BAG	DURANGO & SILVERTON
291	COACH/PASS	"
270	" "	"
257	" "	"
311	" "	"
630	" "	"
631	" "	"
632	" "	"
330	" "	"
331	" "	"
332	" "	"
333	" "	"
334	" "	"
335	" "	"
336	" "	"
337	" "	"
350	PASS/PARLOR	"
64	CONCESSION	"
566	"	"
126	"	"
212	"	"
312	COACH/PASS	"
319	" "	"
327	" "	"
323	" "	"
400	OPEN/PASS	"
401	"	"
402	"	"
403	"	"
404	"	"
405	"	"
406	"	"
407	"	"
408	"	"
409	"	"
410	"	"
411	"	"
412	"	"
413	"	"
414	"	"
415	"	"
416	"	"
B-2	PRIVATE	CINCO ANIMAS
B-7	"	NOMAD
LOCOMOTIVES #		
473	2-8-2 MIKADO	DURANGO & SILVERTON
476	"	"
478	"	"
480	"	"
481	"	"
482	"	"
INACTIVE LOCOMOTIVES		
420	TYPE	
493	2-8-0	
498	2-8-2	
499	2-8-2	

TOTAL: 44 PASSENGER CARS, 10 LOCOMOTIVES

BLANKET REMAINDER OF EQUIPMENT